IMPERIAL GENERAL PROPERTIES LIMITED
ANNUAL REPORT 1976

Control acquired, 1974, by Deltan Corp. Ltd (Prusac)

IMPERIAL GENERAL PROPERTIES LIMITED

ANNUAL REPORT 1976

FINANCIAL HIGHLIGHTS

	1976	1975*
Total Assets	$62,016,000	$62,198,000
Shareholders' Equity	12,270,000	11,277,000
Rental Revenue	7,946,000	5,854,000
Net Earnings	993,000	777,000
Cash Provided From Operations	2,764,000	2,197,000
Number of Shares	1,250,000	1,250,000
Shareholders' Equity per Share	$9.82	$9.02
Net Earnings per Share	$0.79	$0.62
Cash Flow per Share	$2.21	$1.76

*Restated

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REPORT TO SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present our annual report for the year ended October 31, 1976. As expected the year just ended was one of severe curtailment in the level of construction activity by your company. This was generally evident throughout the industry, particularly in the two areas in which Imperial General has traditionally concentrated its efforts, i.e. in the provision of high-rise residential rental accommodation and in the provision of plant and warehouse facilities for the industrial user.

It is indeed unfortunate but it appears that short term political objectives will again determine the course of residential rental construction. This combined with a sluggish economy in general suggest that your company may still be faced with a very low level of construction activity throughout the next fiscal year.

Net earnings for the year ended October 31, 1976 were $993,000 or 79 cents per share compared to $777,000 or 62 cents per share for the previous year. During the current year earnings derived from the sales of land amounted to $234,000 or 19 cents per share compared to $37,000 or 3 cents per share for the corresponding period last year. Cash flow from operations amounted to $2,764,000 or $2.21 per share versus $2,197,000 or $1.76 per share for the year ended October 31, 1975.

It is disappointing to note that earnings from operations are at relatively the same level as a year ago even though 1976 was the first full year of operation for the 859 suite Imperial Towers apartment project. While it is not unexpected that such a project might contribute only marginally in the first year, the company certainly did not expect to be held at that level by an artificial marketplace. It is unreasonable for the Ontario government to expect the private sector to continue providing rental accommodation when it is faced with the prospect of, at best, being able to recover only operating cost increases. We hope that the legislators will eventually come to the realization that your company is entitled to a fair return on the 20 million dollars it invested in this project.

The contribution produced by your company's management and employees during the past year is especially appreciated.

R. J. PRUSAC
Chairman of the Board
and President

March 28, 1977

IMPERIAL GENERAL PROPERTIES LIMITED

CONSOLIDATED BALANCE SHEET
OCTOBER 31, 1976

(with comparative restated figures for 1975 — notes 6 and 7)

ASSETS

	1976	1975
Land held for development at cost (note 2)	$ 2,627,000	$ 2,886,000
Properties under construction, at cost (note 2)		3,798,000
Income properties less accumulated depreciation (note 3)	52,087,000	48,409,000
Mortgages receivable (note 4)	4,396,000	4,199,000
Deferred charges less amortization (note 5)	642,000	693,000
Accounts receivable	520,000	442,000
Claim receivable (note 6)	755,000	755,000
Prior years' income taxes recoverable (note 7)	646,000	610,000
Prepayments and other assets	343,000	406,000
	$62,016,000	$62,198,000

On behalf of the Board:

R. J. PRUSAC, *Director*

T. S. RIPLEY, *Director*

(See accompanying notes)

LIABILITIES

	1976	1975
Bank indebtedness (note 8)	$ 2,811,000	$ 3,536,000
Accounts payable	725,000	1,191,000
Tenants' and other deposits	671,000	612,000
Mortgages payable:		
On land held for development (note 9)	991,000	1,359,000
On properties under construction		3,228,000
On income properties (note 10)	35,702,000	33,051,000
Deferred income taxes	5,220,000	4,279,000
Deferred income on sales of land (note 11)	3,626,000	3,665,000
	49,746,000	50,921,000

SHAREHOLDERS' EQUITY

Capital stock (notes 3 and 12):		
Authorized:		
250,000 preference shares with a par value of $20 each, issuable in series		
3,000,000 common shares without par value		
Issued:		
1,250,000 common shares	7,985,000	7,985,000
Contributed surplus (note 6)	737,000	737,000
Retained earnings	3,548,000	2,555,000
	12,270,000	11,277,000
	$62,016,000	$62,198,000

CONSOLIDATED STATEMENT OF NET EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED OCTOBER 31, 1976

(with comparative restated figures for 1975 — notes 6 and 7)

	1976	1975
Rental revenue	$ 7,946,000	$ 5,854,000
Rental expenses:		
Mortgage interest	3,132,000	2,342,000
Realty taxes	1,119,000	710,000
Property operating expenses	1,526,000	910,000
Depreciation (note 3)	534,000	406,000
	6,311,000	4,368,000
Earnings from rental operations	1,635,000	1,486,000
Income on sales of land (sales of $840,000 less cost of sales $423,000)	417,000	
Income from prior year's sales (note 11)	39,000	78,000
Interest and other income	554,000	441,000
	2,645,000	2,005,000
Expenses:		
General and administrative including depreciation of $15,000 ($20,000 in 1975)	458,000	228,000
Interest on general borrowings	253,000	120,000
	711,000	348,000
Earnings before taxes on income	1,934,000	1,657,000
Provision for deferred income taxes	941,000	880,000
Net earnings for the year	993,000	777,000
Retained earnings, beginning of year as restated (note 7)	2,555,000	1,778,000
Retained earnings, end of year	$ 3,548,000	$ 2,555,000
Net earnings per share (note 12)	$0.79	$0.62

(See accompanying notes)

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF CASH

FOR THE YEAR ENDED OCTOBER 31, 1976

(with comparative restated figures for 1975 — notes 6 and 7)

	1976	1975
Source of cash:		
Earnings before income on sales of land, taxes on income and income from prior year's sales	$ 1,478,000	$ 1,579,000
Add charges not requiring a cash outlay:		
Depreciation	549,000	426,000
Amortization	97,000	92,000
	2,124,000	2,097,000
Sales of land —		
Proceeds on sales	840,000	
Less mortgage taken back on sale	250,000	
	590,000	
Proceeds from prior year's sales	50,000	100,000
	640,000	100,000
Cash from operations	2,764,000	2,197,000
Proceeds of mortgage financing		8,304,000
Increase in —		
Tenant's and other deposits	59,000	251,000
Bank indebtedness net of cash		1,311,000
Total source of cash	$ 2,823,000	$12,063,000
Application of cash:		
Investment in real estate holdings	$ 578,000	$ 8,418,000
Decrease in accounts payable	466,000	2,794,000
Mortgage principal repayments and refunding	945,000	494,000
Increase in deferred charges	46,000	144,000
Cash applied to other assets and liabilities (net)	63,000	213,000
Decrease in bank indebtedness	725,000	
Total application of cash	$ 2,823,000	$12,063,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. *Consolidation*
The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly owned.

2. *Accounting for land held for development and properties under construction*
The company capitalizes the following costs on properties under construction and land held for development to the extent that the accumulated costs do not exceed the estimated net realizable value of the property:
—Direct carrying costs such as mortgage interest, realty taxes and professional fees where such are identifiable with the specific properties;
—Administrative overhead and interest on general borrowings considered applicable;
—Operating expenses less rental income incidentally incurred and received on land held for development. For properties under construction, all income and operating expenses are capitalized until such time as the break-even point in cash flow from the property is attained.
Amounts capitalized during the year as part of land held for development and properties under construction may be summarized as follows:

	1976	1975
Direct carrying charges, net of rental income and expense	$201,000	$519,000
Interest on general borrowings...	117,000	134,000
Administrative overhead.........	32,000	184,000
	$350,000	$837,000

3. *Income properties*
Income properties consist of the following:

	1976	1975
Land	$ 8,459,000	$ 7,839,000
Buildings	45,768,000	42,175,000
	54,227,000	50,014,000
Less accumulated depreciation on buildings	2,140,000	1,605,000
	$52,087,000	$48,409,000

The company was created as of November 1, 1968 as an amalgamation of a number of predecessor companies. Income properties owned at the date of amalgamation are carried in the accounts at appraised value (i.e. fair market value) as determined by The Montreal Trust Company as at September 30, 1968. The appraisal increase of $5,765,000 ($1,750,000 of which was applicable to land and $4,015,000 to buildings) was credited to common share capital. Subsequent additions have been recorded at cost.

The carrying values of buildings are depreciated using the sinking fund method. Under this method, the depreciation charged to income for a particular building increases annually as it includes a fixed annual provision plus an amount equivalent to interest thereon compounded annually at 5%.

Industrial and commerical buildings are depreciated over forty years and apartment buildings over fifty years.

4. *Mortgages receivable*
Mortgages receivable which bear interest at an average rate of 9% per annum include first mortgages of $3,879,000 and a second mortgage of $517,000. The combined principal repayments in respect of the mortgages may be summarized as follows:

Year ending October 31,	1977	$ 51,000
	1978	101,000
	1979	4,195,000
	1980	2,000
	1981	2,000
	1982 and subsequent	45,000
		$4,396,000

5. *Deferred charges*
It is the company's policy to defer leasing costs and the cost of arranging mortgage financing and to amortize these amounts on a straight-line basis over the term of the related leases or mortgages. Amortization charged to income (included in property operating expenses) amounted to $97,000 in 1976 and $92,000 in 1975.

6. *Claim receivable and contributed surplus*
On February 29, 1972, Morenish Land Developments Limited acquired from two vendors a total of 920,000 issued and outstanding common shares of the company. In connection with that transaction, each of the vendors agreed with the company to pay to the company any amounts, as defined, not reflected in the calculation of shareholders' equity as shown on the consolidated financial statements of the company as at October 31, 1971 including amounts in excess of $800,000 for income taxes, interest and penalties thereon payable by the company and its subsidiaries with respect to periods up to and including October 31, 1971.

Re-assessments of income taxes relating to the company and the predecessor companies amalgamated in 1968 have been received totalling approximately $1,500,000 including interest and penalties in respect of the years 1962-1971 inclusive. No precise determination can be made of the final liability at this time since certain of the assessments are still under appeal but the maximum liability had been recognized in the accounts by provisions totalling $1,500,000. Payments of $1,475,000 have been made to October 31, 1976 in respect of the assessments. Because of the indemnity provisions the maximum liability for income taxes, interest and penalties to be borne by the company without reimbursement is $800,000 and accordingly an amount of $700,000 had been recognized as recoverable from the vendors. Subsequent to year end, the company has received income tax reassessments reducing the liability for income taxes, interest and penalties in respect of the years 1962-1971 inclusive by $538,000. These have been reflected in the accounts resulting in a reduction in the amount recoverable from the vendors.

The company had recognized certain other amounts as recoverable from the vendors and had therefore recorded an amount receivable of $575,000. Costs of $18,000 incurred since 1972 with respect to the claim were recorded in the accounts.

At the time the above amounts were recorded as a claim receivable the company recognized a corresponding credit to contributed surplus. The following is a summary of the accounting treatment:

	Claim Receivable	Contributed Surplus
Recorded in 1972:		
Excess of income tax reassessments over $800,000	$ 700,000	$ 700,000
Certain other amounts claimed under the indemnity agreements	575,000	575,000
	1,275,000	1,275,000
Related costs recorded since 1972	18,000	
Balances as previously reported at October 31, 1975	1,293,000	1,275,000
Reduction in claim receivable and contributed surplus to reflect income tax reassessments received subsequent to October 31, 1976 (reflected as a retroactive adjustment at both October 31, 1976 and 1975)	538,000	538,000
Balances per balance sheet	$ 755,000	$ 737,000

In February 1977, Morenish Land Developments Limited remitted to the company the balance of the claim receivable and exercised its right to deduct such amounts from its final payments in settlement of the purchase of shares from the vendors.

The vendors have commenced legal proceedings disputing Morenish's right of deduction and denying liability for payment of the claim. These legal proceedings are being defended. In the opinion of legal counsel for the company, the company has a proper legal basis for its claim for indemnity and it is expected such defence will be successful.

7. *Restatement of 1975 figures*

Subsequent to the year end the company received income tax reassessments reducing the liability for income taxes, interest and penalties in respect of the years 1962-1971 inclusive by $538,000 (see note 6) and granting interest credits for tax overpayments subsequent to 1971 of $108,000. These amounts have been reflected as a receivable item in the balance sheet at October 31, 1975 and 1976, with net earnings for 1975, and retained earnings at October 31, 1974 and 1975 being restated for the applicable portions of the tax assessments, and interest credits on overpayments as follows:

Retained earnings, October 31, 1974 as previously reported		$1,222,000
Add:		
Reduction in income tax reassessments in respect of the years of the years 1962-1971	$538,000	
Interest credits on overpayments to October 31, 1974 less related deferred income taxes of $18,000	18,000	556,000
Retained earnings, October 31, 1974 as restated		1,778,000
Add:		
Net earnings for 1975 as previously reported		758,000
Interest credits on overpayments less related deferred income taxes of $17,000		19,000
Net earnings for 1975 as restated		777,000
Retained earnings, October 31, 1975 as restated		$2,555,000

Earnings per share for 1975 previously reported at 61¢ have been restated at 62¢ per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

8. *Bank indebtedness*
As security for its bank indebtedness the company has issued to its bankers demand debentures secured by a floating charge on the assets and undertakings of the company.

9. *Mortgages on land held for development*
Mortgages on land held for development consist of first mortgages bearing interest at an average rate of 9% per annum and are repayable as to principal as follows:

Year ending October 31, 1977	$ 20,000
1978	971,000
	$991,000

10. *Mortgages on income properties*
Mortgages on income properties consist of first mortgages bearing interest at an average rate of 9.11% per annum and repayable as to principal as follows:

Year ending October 31, 1977	$ 2,605,000
1978	1,499,000
1979	1,893,000
1980	911,000
1981	935,000
1982 and subsequent	27,859,000
	$35,702,000

11. *Income from sale of land*
The company normally recognizes income on the sale of land when all material conditions of the related sale agreement have been fulfilled including a minimum cash downpayment of 15% of the proceeds.

During 1974 the company entered into agreements of sale in respect of certain land where the terms and conditions are such that income is being recognized in the accounts as the proceeds from the sales are received.

12. *Capital stock*
At October 31, 1976 the company had reserved 50,000 shares for issuance under an employees' stock option plan. No accounting is made in respect of stock options until such time as they are exercised. At the time of exercise the proceeds are credited to share capital. The grantee, in lieu of purchasing the optioned shares, may request payment in shares of common stock for the increase in the market value of stock over the option price.

Changes in options during the year ended October 31, 1976 were as follows:

Price per share	Expiry date	Balance October 31, 1975	Granted (cancelled) during the year	Balance October 31, 1976
$3.60	1978	4,650		4,650
$3.25	1979	9,500	(1,250)	8,250
$2.90	1981		9,350	9,350
		14,150	8,100	22,250

Options granted may be exercised as to one-fifth each year on a cumulative basis. Were these options exercised in 1976 there would be no material dilution of reported net earnings per share.

13. *Statutory information*
Aggregate direct remuneration of directors and senior officers (as such are defined under The Business Corporations Act) was $153,000 in 1976 and $155,000 in 1975.

14. *Government controls*
Under the federal government's anti-inflation program (presently to be in force until December 31, 1978) the company is subject to mandatory compliance with legislation which controls prices and profit margins (except on rental operations), employee compensation and shareholder dividends. The company believes it is in compliance with such legislation.

Under the Ontario government's rent review program the company, under certain circumstances, is subject to application to the Rent Review Board for approval of rental rates charged to its residential tenants.

AUDITORS' REPORT

Clarkson, Gordon & Co.

Chartered Accountants

To the Shareholders of
Imperial General Properties Limited:

We have examined the consolidated balance sheet of Imperial General Properties Limited as at October 31, 1976 and the consolidated statements of net earnings and retained earnings and source and application of cash for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1976 and the results of its operations and the source and application of its cash for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 28, 1977.

Clarkson, Gordon & Co.

Chartered Accountants

CORPORATE INFORMATION

DIRECTORS

M. B. Deans
H. C. Kerr, Q.C.
R. J. Prusac
T. S. Ripley
W. R. Stevenson

OFFICERS

R. J. Prusac, Chairman of the Board and President
H. C. Kerr, Q.C., Secretary-Treasurer
H. K. Brown, General Manager
R. P. Meacher, Comptroller

REGISTRAR & TRANSFER AGENT

Metropolitan Trust Company

AUDITORS

Clarkson, Gordon & Co.

HEAD OFFICE

25 Wingold Avenue
Toronto, Ontario
M6B 1P8

IMPERIAL GENERAL PROPERTIES LIMITED

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IMPERIAL GENERAL PROPERTIES LIMITED
CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF CASH
FOR THE SIX MONTHS ENDED APRIL 30, 1976
(Unaudited)

	1976	1975
SOURCE OF CASH:		
Operations:		
Net Earnings	$ 298,000	$ 352,000
Expenses not requiring cash:		
Deferred Income Taxes	300,000	401,000
Depreciation	256,000	188,000
Amortization	46,000	43,000
	900,000	984,000
Cash from prior year's Sales of Properties:		
Proceeds from Mortgages	50,000	50,000
Less Realized Deferred Income included in Net Earnings	39,000	39,000
	11,000	11,000
Cash provided from Operations	911,000	995,000
Proceeds of Mortgage Financing		6,898,000
Tenants and Other Deposits		-106,000
Increased Bank Indebtedness	277,000	
Net Cash from Other Assets and Liabilities	140,000	
	$1,328,000	$7,999,000
APPLICATIONS OF CASH:		
Investment in Real Estate Holdings	$ 425,000	$6,287,000
Mortgage Principal Repayments	665,000	259,000
Payments of Prior Year's Income Taxes		
Decrease in Accounts Payable	238,000	990,000
Increase in Deferred Charges		130,000
Net Cash applied to Other Assets and Liabilities		143,000
Decreased Bank Indebtedness		190,000
	$1,328,000	$7,999,000
Cash Flow from Operations	73¢	80¢

IMPERIAL GENERAL PROPERTIES LIMITED

INTERIM REPORT TO SHAREHOLDERS

6 MONTHS ENDED APRIL 30, 1976

TO THE SHAREHOLDERS:

Earnings for the six months ended April 30, 1976 were $298,000 or 24 cents per share compared to $352,000 or 28 cents per share for the similar period last year. Cash flow from operations amounted to 73 cents per share compared to 80 cents for the six months ended April 30, 1975.

Earnings for the current period include profit realized from the sale of properties amounting to $38,000 or 3 cents per share compared to $19,000 or 1.5 cents per share for the previous period.

During the period under review, the Finch and Warden apartment project accounted for an increase of $1,150,000 in rental revenue. It is indeed unfortunate that in a period when your company should be showing a significant growth in earnings as a result of bringing this project on stream, we are instead reporting decreased earnings.

This decrease in earnings is primarily as a result of significant increases in apartment operating costs while at the same time our ability to pass these increases on through higher rents is restricted by the provincial rent review legislation. Application has been made for authorization to increase rents in relation to increasing costs.

R. J. PRUSAC,
Chairman of the Board
and President

June 1976

IMPERIAL GENERAL PROPERTIES LIMITED
CONSOLIDATED STATEMENT OF NET EARNINGS
FOR THE SIX MONTHS ENDED APRIL 30, 1976
(Unaudited)

	1976	1975
Rental Revenue	**$3,748,000**	$2,548,000
Rental Expenses:		
Mortgage Interest	**1,514,000**	1,012,000
Property Operating Expenses	**1,333,000**	686,000
Depreciation	**248,000**	177,000
	3,095,000	1,875,000
Earnings from Rental Operations	**653,000**	673,000
Income Realized on Sale of Properties	**77,000**	39,000
Interest and Other Income	**202,000**	198,000
Earnings before the following	**932,000**	910,000
General and Administrative Expenses	**197,000**	93,000
Interest on General Borrowings	**130,000**	53,000
Depreciation	**7,000**	11,000
	334,000	157,000
Earnings before Taxes on Income	**598,000**	753,000
Provision for Deferred Income Taxes	**300,000**	401,000
NET EARNINGS	**$ 298,000**	$ 352,000
Earnings per share	24¢	28¢